

Office of Audit Services Charter

~~I.~~ PURPOSE [Moved to second topic]

The purpose of the CalPERS Office of Audit Services Charter, ~~dated September 15, 2004,~~ is to assist CalPERS' internal auditors in fulfilling their mission and fiduciary responsibilities under the oversight of the ~~Finance~~ Risk and Audit Committee. ~~This document includes the following topics.~~

~~I. PURPOSE~~

~~II. MISSION~~

~~III. OBJECTIVES AND SCOPE~~

~~IV. AUTHORITY~~

~~V. ACCESS~~

~~VI. INDEPENDENCE~~

~~VII. RESPONSIBILITIES AND ACCOUNTABILITY~~

~~VIII. PROFESSIONAL STANDARDS~~

~~IX. RELATIONSHIP TO THE RISK MANAGEMENT AND INTERNAL CONTROL PROGRAMS~~

~~X. PROCUREMENT OF EXPERTISE OUTSIDE OF THE OFFICE OF AUDIT SERVICES~~

~~XI. RELATIONSHIP TO PREVENTION, DETECTION AND CORRECTION ACTIVITIES~~

~~II. MISSION~~ [Changed to "Introduction" and moved to first section]

~~The mission of the Office of Audit Services (OFAS or the "Office") is to provide Internal Auditing is an independent and objective assurance and consulting services activity that is guided by a philosophy of adding value to improve the operations of CalPERS. designed to add value and improve CalPERS' operations. Therefore, the OFAS is the independent assurance and consulting activity established within CalPERS to broadly examine and evaluate its activities as service to the organization. The primary mission of the Office is to increase assurances that CalPERS assets are safeguarded, that operating efficiency is promoted, and the compliance is maintained with prescribed laws and Board and management policies. Internal Audits assists CalPERS in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes. The Office accomplishes its mission as follows:~~

- ~~Provides a wide range of quality independent internal auditing services for the Finance Committee and Executive Management, and consulting services for Management;~~
- ~~Performs independent assessments of the systems of risk management, internal controls and operating efficiency, guided by professional standards and using innovative approaches;~~
- ~~Supports CalPERS' efforts to achieve its objectives through independent auditing services and consulting services; and~~
- ~~Maintains a dynamic, team-oriented environment which encourages personal and professional growth, and challenges and rewards internal audit staff for reaching their full potential and excelling.~~

III. OBJECTIVES AND SCOPE OF WORK [Revised with information from Institute of Internal Auditors Model Audit Charter and Audit Director Roundtable Corporate Audit Charter]

The scope of audit work encompasses the examination and evaluation of the adequacy and effectiveness of CalPERS governance, risk management, and internal control processes to achieve the stated goals and objectives of CalPERS. The scope may include:

~~**Auditing Objectives.** The objectives of the Office's auditing services are to provide independent assurance to the Finance Committee and management that CalPERS' assets are safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws, and Board and management policies. These objectives of auditing services include independent assessment of CalPERS' risk awareness and management, reliability and integrity of CalPERS' data, and achievement of CalPERS' goals and objectives.~~

~~**Consulting and Advisory Objectives.** The objectives of the Office's consulting and advisory services are to provide management with assessments and advice for improving processes that will advance the goals and objectives of CalPERS. In particular, the objectives are to provide the assessments and advice on the front-end of projects so that risks may be identified, managed and internal controls may be designed at the beginning of a project.~~

~~**Scope.** The scope of work of the Office of Audit Services is to determine whether CalPERS' network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:~~

- ~~*Ensuring programs and systems are operating within the highest fiduciary standards and are directed toward the requirements defined in the Federal and State constitutions, laws, regulations, and the policies and procedures of CalPERS. Benefit programs are directed toward the exclusive benefit of CalPERS' members, retirees, and beneficiaries per the California State Constitution.*~~
- *Reviewing the reliability and integrity of financial and operating controls and information and the means used to identify, measure, classify and report such information.*
- *Assessing business risks and verifying appropriate mitigating control mechanisms are in place.*
- *Reviewing established system of internal control to ascertain whether they are functioning as designed.*
- *Appraising the efficiency of processes and resources deployed.*

- ~~Programs and processes are in synchrony with industry best practices, using the best public and private examples as benchmarks.~~
- ~~Significant legislative or regulatory issues impacting CalPERS are recognized and addressed appropriately.~~
- ~~Operations, processes and programs are consistent with established missions, objectives and goals and whether they are being carried out as planned.~~
- ~~Existing policies and procedures are appropriate and updated.~~
- ~~Risks within CalPERS and risks outside of CalPERS which could impact CalPERS are appropriately identified, managed and mitigated.~~
- ~~Employers appropriately enroll employees, accurately report member earnings, and appropriately report other employee data.~~
- ~~Interaction with appropriate governance groups occurs as needed.~~
- ~~Significant financial, managerial, and operating information is accurate, reliable, and timely.~~
- ~~Resources are acquired economically, used efficiently, and adequately protected.~~
- ~~Quality service and continuous improvement are fostered in CalPERS' control process.~~
- ~~Contractors, including third-party administrators, are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, procedures and best practices.~~
- ~~Responsibilities and activities of CalPERS' external financial statement auditors are coordinated with those of the internal auditors in order to provide continuity of audit efforts and to avoid duplication of efforts.~~
- ~~Responsibilities and activities are coordinated with the CalPERS' real estate compliance auditor(s).~~
- ~~Responsibilities and activities are coordinated with any other external auditors engaged by CalPERS for audit and/or attest services.~~
- ~~Quality of performance of the external financial statement auditor and any other auditors engaged by CalPERS is reviewed.~~
- ~~Access for auditors and investigators of the State and Federal Governments is provided as appropriate.~~
- ~~Specific operations, processes or programs are reviewed at the request of the Finance Committee or management.~~

~~Opportunities for improving member service, management of risks, internal control, governance,~~

~~performance, efficiency, and CalPERS' effectiveness and image may be identified during audits. This information will be communicated to the Finance Committee, the Board and to appropriate levels of management.~~

IV. AUTHORITY [Added information from Board Delegation Resolutions and "Access" section].

~~The Board of Administration delegated audit authority to the Chief Executive Officer per Government Code Section 20099. As a representative of the Chief Executive Officer of CalPERS, the Office of Audit Services is organized to achieve its mission as described in Section II of this Charter. This Charter is approved by and all future amendments to it are to be approved by the Finance Risk and Audit Committee through a majority vote, and adopted by the Board of Administration (Board). Through Delegation of Authority to the Chief Auditor, the Chief Auditor and internal staff are authorized to obtain: This Charter shall be reviewed at least annually and updated as required and approved by the Finance Committee. The Office of Audit Services is authorized to operate under applicable laws, professional standards, customs of corporate governance and best practices.~~

- *Full, free and unrestricted access to all of the CalPERS functions, records, files and information systems, personnel, contractors, physical properties, rental locations, and any other item relevant to the function, process, or business unit under review.*
- *Free and unrestricted access to the Chair of the Risk and Audit Committee, the Risk and Audit Committee, and the President of and the members of the Board of Administration.*
- *Free and unrestricted access to the Chief Executive Officer, the other Executives, management, staff, contractors and vendors of CalPERS, and employers, members, retirees and beneficiaries of CalPERS.*
- *Free and unrestricted access to information at CalPERS' health plan contractors, including claims information, subject to applicable Federal and State laws.*

~~The Chief Auditor reports administratively to the General Counsel, and has direct reporting responsibility to the Chief Executive Officer and the Finance Committee of the Board of Administration. The Chief Auditor has been delegated the authority to operate the Office of Audit Services. The Finance Committee retains the right to recommend adoption by the Board of Administration of the biennial annual audit plan annually presented by the Chief Auditor directly to the Committee. The Chief Auditor shall periodically inform the Committee of the status of the audit plan and any changes needed. The Chief Auditor is authorized to allocate resources, set project frequencies, select audit subjects, determine scopes of work, and apply the techniques necessary to accomplish the audit objectives. The Chief Auditor is authorized to hire, retain, train, develop internal audit staff to achieve the objectives, and he/she is authorized to terminate internal audit staff when necessary (subject to applicable California laws and customs).~~

~~The Chief Auditor and internal audit staff are not authorized to perform operational duties for the CalPERS and/or its affiliates and contractors. Office of Audit Services staff is not authorized to initiate or approve accounting transactions external to the Office of Audit Services. Office of Audit Services staff is not authorized to direct the activities of any CalPERS employee not employed by the Office of Audit Services, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.~~

V. ACCESS [Moved information to "Authority" and "Responsibility" sections]

~~The Chief Auditor and designated audit staff, as appropriate, are granted authority for full, free and unrestricted access to all of the CalPERS' functions, records, files and information systems, personnel, contractors, physical properties, rental locations, and any other item relevant to the~~

~~function, process or business unit under review. All contracts with vendors shall contain CalPERS' standard audit language enabling CalPERS internal auditors and other auditors and specialists to have access to relevant records and information. Any modifications of the standard contract audit language must be approved by both the Chief Auditor and the General Counsel. All of the employees of CalPERS are required to assist the staff of Office of Audit Services in fulfilling their audit functions and fiduciary duties.~~

~~The Chief Auditor shall have free and unrestricted access to the Chairman of the Finance Committee, the Finance Committee, and the President of and members of the Board of Administration, subject to applicable State and Federal laws. The Chief Auditor shall also have free and unrestricted access to the Chief Executive Officer, the other Executives, Management and all personnel, contractors and vendors of the CalPERS, and employers, members, retirees and beneficiaries of the CalPERS. The Chief Auditor shall have free and unrestricted access to information at CalPERS' health plan contractors, including claims information, subject to applicable Federal and State laws.~~

~~Documents and information given to the Office of Audit Services shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. The Chief Auditor shall ensure that internal audit staff is instructed in the handling and safeguarding of confidential information.~~

~~VI.~~ INDEPENDENCE

~~**Organizational Placement.** To provide for the independence of the Office of Audit Services, its personnel staff report to the Chief Auditor, who in turn reports administratively to the General Counsel, and has direct reporting responsibility to the Chief Executive Officer and the Finance Risk and Audit Committee of the Board of Administration, in the manner outlined in the above section on Authority. The Chief Auditor shall freely discuss audit policies, audit findings and recommendations, audit follow-up, guidance issues and other matters with the Finance Committee, the Chief Executive Officer, the General Counsel and management as necessary. The Chief Auditor will present any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s) to the Risk and Audit Committee.~~

~~**Professional Standards Independence.** The Finance Committee recognizes that professional independence requires that the auditors have knowledge of operations and appropriate expertise in the subject matter that is being audited. Therefore, the Chief Auditor will include as part of its reports to the Finance Committee a regular report on internal audit personnel, including their qualifications, certifications and development. The Chief Auditor shall periodically discuss standards of professional audit independence with the Finance Committee. The standards of independence used as benchmarks will be those of the professional organizations mentioned in Section VIII of this document on Professional Standards. The reporting relationships of the Chief Auditor should be reviewed periodically.~~

~~**Potential Impairment of Independence.** The Chief Auditor should discuss any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s) with the Finance Committee as necessary.~~

Internal auditors will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

The Chief Auditor and internal audit staff are not authorized to perform programmatic operational duties for CalPERS. Accordingly, they will not implement internal controls, develop procedures, install

systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

VII. RESPONSIBILITYES AND ACCOUNTABILITY [Revised with language from Institute of Internal Auditors Model Audit Charter, Audit Director Roundtable Corporate Audit Charter, and previous OFAS charter].

The Chief Auditor *has a responsibility to:* ~~is responsible for the following in order to meet the mission, objectives and scope of this Charter and the Office of Audit Services.~~

- ~~1. Select, train, develop and retain a competent internal audit staff who collectively have the abilities, knowledge, skills, experience, expertise and professional certifications necessary to accomplish the mission, objectives and scope of this Charter. Provide opportunity and support for staff obtaining professional training, professional examinations, and professional certifications.~~
- ~~2. Establish policies for conducting its activities and directing its technical and administrative functions according to CalPERS' policies and direction provided by the Finance Committee, and professional standards described in Section VIII.~~
- ~~3. Conduct an annual risk assessment and produce a flexible audit plan that will accomplish the mission, objectives and scope of this Charter. This plan will include some unassigned hours in order to provide flexibility for changing conditions. This plan shall in part be based upon risks and control concerns identified by Management. This plan shall be submitted annually to the Finance Committee and the Board of Administration for approval and adoption, per Section IV, Paragraph 3. This plan will be periodically updated as necessary.~~
- ~~4. Prepare a budget that is complementary to the implementation of the audit plan.~~
- ~~5. Implement the annual audit plan, as approved, including, as appropriate, any plan amendments, special tasks or projects requested by Management and the Finance Committee.~~
- ~~6. Coordinate with audit clients to finalize recommendations for improvement and identify implementation timelines. Internal audit staff shall consider costs and benefits while formulating and discussing their recommendations. Transmit copies of the reports to the appropriate CalPERS staff, management, and executives.~~
- ~~7. Perform a periodic comprehensive evaluation of risk management and internal controls performed by management (see Section IX) per applicable laws and/or policies, including the internal control reviews required by the Financial Integrity and State Manager's Accountability Act of 1983, as provided in Sections 13400-13407 of the California Government Code, and implemented by the State Administrative Manual, Section 20000, and et seq.~~
- ~~8. Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with~~

~~their development, implementation, and/or expansion.~~

- ~~9. Transmit copies of all audit, attest and assurance reports by internal auditors to the Finance Committee. Transmit copies of all audit, attest and assurance reports and management letters by external auditors to the Finance Committee.~~
- ~~10. Conduct periodic follow-up reviews to evaluate the adequacy of Management's corrective actions.~~
- ~~11. Issue periodic reports to the Finance Committee and Management summarizing results of audit activities, and summarizing the status of follow-up activities.~~
- ~~12. Provide periodic summaries of consulting and advisory activities to the Finance Committee.~~
- ~~13. Select performance measures that support the Mission in Section II and implementation of the audit plan approved by the Finance Committee.~~
- ~~14. Assess periodically whether the purpose, authority and responsibility, as defined in this Charter, continue to be adequate to enable the Office of Audit Services to accomplish its mission, objectives and scope. The result of this periodic assessment should be communicated to the Finance Committee and the Chief Executive Officer.~~
- ~~15. Attend all Finance Committee meetings, and ensure attendance of additional audit staff and attendance by auditees as appropriate.~~
- ~~16. Obtain a peer review by other internal auditors as required by professional standards, currently no less frequently than every five (5) years, or per any future revisions of the standards of the Institute of Internal Auditors.~~
- ~~17. Inform the Finance Committee of emerging trends and successful practices in internal auditing.~~
- ~~18. Assist in the investigation of significant suspected fraudulent activities within CalPERS. Notify the Finance Committee, the Chief Executive Officer and other Executives, as appropriate, of the results.~~
- ~~19. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to CalPERS at a reasonable overall cost.~~
- ~~20. Evaluate annually the quality of the annual financial report and suggest improvements in the presentation and disclosures.~~
- ~~21. Lead in the process for selecting the external financial statement auditor. Assess the independence of the candidate firms by communicating with those firms, with management, by searching the literature, and by obtaining copies of all contracts that the candidate firms have with CalPERS, its affiliates and other associated organizations.~~
- ~~22. Manage and coordinate the contract with the external financial statement auditors, and evaluate their performance. Obtain copies of and evaluate any reviews of the~~

~~audit firm by the Public Accounting Oversight Board or by other entities (for example, a peer review).~~

~~23. Report to the Finance Committee on all activities and associated costs of work performed by the external financial statement auditor.~~

~~24. Lead the process for selecting the Board's Real Estate Compliance Auditor(s). Manage and coordinate the contract(s) with the Board's Real Estate Compliance Auditor(s), and evaluate their performance. Report to the Finance Committee on all activities and associated cost of work performed by the Board's Real Estate Compliance Auditor(s). Obtain copies of and evaluate any reviews of these audit firm(s) by the Public Company Accounting Oversight Board or by other entities (for example, a peer review).~~

~~25. Lead the process for selecting other external audit firms for other auditing and attest services. Manage and coordinate the contract(s) with any other external audit firms, and evaluate their performance. Report to the Finance Committee on all activities and associated cost of work performed by the other external audit firms engaged in audit and attest activities. Obtain copies of and evaluate any reviews of the audit firm(s) by the Public Company Accounting Oversight Board or by other entities (for example, a peer review).~~

~~The Chief Auditor shall communicate all proposed services to CalPERS by CPA firms to the Chair of the Finance Committee. Furthermore, CalPERS' management shall not engage any CPA firm for any services, including consulting services, without first conferring with the Chief Auditor in order to avoid potential conflicts of interest.~~

~~26. Consult with CalPERS' management, as requested, on potential policy and procedure changes.~~

~~27. Participate, in an advisory capacity, in the planning, design, development, and implementation and modification phases of major information related systems regarding one or more of the following:~~

~~a. — best practices are in place for project management;~~

~~b. — adequate controls are incorporated in the systems;~~

~~c. — thorough systems testing is performed at appropriate stages;~~

~~d. — systems documentation is complete and accurate; and~~

~~e. — the new system, or upgraded existing system, will meet the objectives and purposes.~~

~~28. Conduct periodic audits of existing applications systems and make post-implementation evaluations of new data processing systems to determine whether these systems meet their intended purposes and objectives~~

~~29. Participate in professional audit organizations by attending meetings, joining the governing boards, presenting speeches and papers, and networking with other professionals. Network with internal audit staff of other public pension systems to learn and exchange best practices information. Participate in other professional~~

~~organizations related to the mission of CalPERS. These professional organizations may be involved in benefits, investments, accounting or operations, for example.~~

~~30. Act as the primary point of contact for handling all matter related to audits, examinations, investigations or inquiries of the California State Auditor, the Joint Legislative Audit Committee and other appropriate State or Federal Auditors.~~

~~31. Review CalPERS' fraud policy and ethics policy periodically.~~

~~32. Communicate and coordinate appropriate activities with the CalPERS Compliance Office.~~

~~33. Participate in CalPERS cross-functional committees as appropriate.~~

- *Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.*
- *Safeguard the documents and information provided to internal audit staff in the same prudent and confidential manner as by those employees normally accountable for them.*
- *Develop an audit plan using an appropriate risk-based methodology, including risks or control concerns identified by management, and review that plan with the Risk and Audit Committee and provide periodic updates.*
- *Implement the audit plan, as approved, including as appropriate any special tasks or projects requested by management and/or the Risk and Audit Committee.*
- *Evaluate and assess significant functions and new or changing systems, processes, operations, and control processes that correspond with their development, implementation, and/or expansion.*
- *Evaluate the effectiveness and efficiency with which resources are employed.*
- *Manage and coordinate the contract with the external financial statement auditors and other external auditors.*
- *Evaluate the quality of performance of external auditors and the degree of coordination with external auditors as well as any examinations performed by regulatory agencies.*
- *Perform consulting and advisory services related to governance, risk management and internal control as appropriate.*
- *Report significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.*
- *Issue reports to the Risk and Audit Committee and management summarizing results of important matters identified through audit activities along with management's response to such issues/recommendations.*
- *Inform the Risk and Audit Committee of significant emerging trends and successful practices in the internal auditing profession.*

- *Confirm independence from undue influence while performing the duties of the Chief Auditor no less than four (4) times per year in closed session Risk and Audit Committee meetings.*
- *Monitor significant Office of Audit Services performance goals and review results with the Risk and Audit Committee as appropriate.*
- *Conduct risk-based audit procedures for compliance with new and existing laws and regulations and review results with management and the Risk and Audit Committee.*
- *Assist with investigations of known or suspected acts of fraud involving CalPERS funds, property and employees in coordination with other CalPERS functional areas and appropriate internal legal counsel.*
- *Follow up on all external auditor or regulatory reports and recommendations.*

INTERNAL AUDIT PLAN [Moved language from “Responsibilities and Accountabilities” section and added new language from Institute of Internal Auditors Model Audit Charter]

At least annually, the Chief Auditor will submit an internal audit plan to the Risk and Audit Committee and Board of Administration for review and approval. The Chief Auditor and internal audit staff will implement the annual audit plan, as approved, including, as appropriate, any plan amendments, and special tasks or projects requested by Management and the Risk and Audit Committee. The Chief Auditor will prepare a budget that is complementary to the implementation of the audit plan. The audit plan will be refreshed as needed.

The internal audit plan will be developed based on a prioritization of all auditable units using a risk-based methodology, including input of senior management and the Board. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Risk and Audit Committee through periodic activity reports.

REPORTING AND MONITORING

A written report will be prepared and issued by the Chief Auditor following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Risk and Audit Committee.

In accordance with the Office of Audit Service’s Audit Resolution Policy, the internal audit activity will monitor corrective actions or acceptance of risk taken by management on reported audit issues and convey these actions to Executive Management and the Risk and Audit Committee.

The Chief Auditor will periodically report to senior management and the Risk and Audit Committee on the internal audit activity’s independence, purpose, authority, and responsibility, as well as performance relative to its plan. As required by Standards, reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board. In addition, the Chief Auditor will communicate to senior management and the Risk and Audit Committee on the internal audit activity’s quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

~~VIII. — PROFESSIONAL STANDARDS~~ PROFESSIONALISM [Revised language from previous

OFAS charter and added language from Institute of Internal Auditors Model Audit Charter; moved to first page]

~~The Office of Audit Services shall follow the professional standards of relevant professional organizations. These professional standards include, but are not limited to, the following:~~

The Office of Audit Services will govern itself by adherence to the Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Office of Audit Services' performance.

In addition to the mandatory guidance, the Office of Audit Services will follow the standards of relevant professional organizations as applicable. These professional standards include, but are not limited to, the following:

- ~~• International Standards for the Professional Practice of Internal Auditing (ISPPA) and the Code of Ethics of the Institute of Internal Auditors (IIA). The ISPPA standards are the primary standards followed by the Office of Audit Services. The current versions of these documents are part of this Charter and are appended thereto.~~
- ~~IS Auditing Standards, Guidelines and Procedures~~, Information Technology Audit and Assurance Standards and the Code of Professional Ethics of the Information Systems Audit and Control Association (ISACA). ~~The Control Objectives for Information Technology (CoBIT) will be used as a reference. The current versions of these documents are part of this Charter and are appended thereto.~~
- ~~Public Company Accounting Oversight Board (PCAOB) auditing standards, as applicable.~~
- American Institute of Certified Public Accountants (AICPA) Professional Standards and Code of Ethics, as applicable.
- ~~• Generally Accepted Government Auditing Standards (GAGAS) from the United States General Accounting Office (GAO), as applicable.~~
- Other professional standards, such as ~~those of the Institute of Management Accountants (IMA) and~~ the Association of Certified Fraud Examiners (ACFE), as applicable.

The Office of Audit Services will also adhere to the Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers as applicable to guide its operations. In addition, the Office of Audit Services will adhere to CalPERS relevant policies and procedures and the Office of Audit Services' procedures manual.

~~IX. RELATIONSHIP TO THE RISK MANAGEMENT AND INTERNAL CONTROL PROGRAMS~~

~~Management is responsible for implementing the system of risk management. The Office of Audit Services will aid management by evaluating risk management during each audit and through consulting activities. The Office of Audit Services will periodically conduct an enterprise risk assessment with the goal of formulating an audit plan. Information gathered~~

~~during the enterprise risk assessment may be shared with management.~~

~~Management is responsible for implementing the system of internal control. The Office of Audit Services will aid management by evaluating internal controls during each audit and by periodically evaluating the entire system of internal controls. These reviews are performed pursuant to applicable State and/or Federal Laws.~~

~~X. PROCUREMENT OF EXPERTISE OUTSIDE OF THE OFFICE OF AUDIT SERVICES~~

~~The Chief Auditor may occasionally need to obtain expertise of persons outside of the Office. This expertise may be obtained within CalPERS through appropriate arrangements with management. When obtaining this expertise, care must be taken to avoid conflicts of interest within CalPERS that could damage the quality of the audit work performed and/or conclusions obtained. Expertise may also be obtained from outside CalPERS through contracts. In such cases, the contract should contain appropriate provisions regarding the nature of the services provided and professional standards to be applied. The Finance Committee should be informed about the use of all external consultants obtained.~~

~~XI. RELATIONSHIP TO PREVENTION, DETECTION AND CORRECTION ACTIVITIES~~

~~The Office of Audit Services strives to participate in the initial stages of major projects so that risks can be appropriately managed and internal controls instituted in the design phase in order to prevent problems and minimize the costs. The Office of Audit Services recognizes that it is more expensive to detect and correct problems than it is to prevent them in the initial stages of a project.~~